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FISCAL IMPACT STATEMENT

LS 7116 | **NOTE PREPARED:** Jan 5, 2004
BILL NUMBER: SB 418 | **BILL AMENDED:**

SUBJECT: Community Revitalization Enhancement District (CRED) Tax Credit.

FIRST AUTHOR: Sen. Broden | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State
X DEDICATED
FEDERAL

Summary of Legislation: The bill establishes a procedure and criteria for appealing a decision by the Department of State Revenue that a taxpayer is not eligible for the Community Revitalization Enhancement District (CRED) Tax Credit because the taxpayer's business relocated operations into the district from another location in Indiana.

Effective Date: July 1, 2004.

Explanation of State Expenditures: The changes made by the bill could potentially create additional administrative demands for the Department of State Revenue (DOR) in determining eligibility for the Community Revitalization Enhancement District (CRED) Tax Credit. However, the additional demands presumably can be absorbed given DOR's existing budget and resources, since the DOR already conducts the determination process and there are reportedly only three CREDs operating at this time - in Bloomington, Marion, and South Bend. The December 29, 2003, vacant position report indicates that the DOR has 124 vacant full-time positions.

Explanation of State Revenues: The bill changes the conditions under which a taxpayer that reduces operations elsewhere in Indiana to relocate operations in a CRED remains eligible for the CRED Tax Credit. Potentially, the changes could increase the number of individual and corporate taxpayers that qualify for the CRED Tax Credit. However, the increase in qualified taxpayers and the fiscal impact as a result is indeterminable.

Under current statute, a taxpayer who makes a qualified investment for the redevelopment or rehabilitation of property located within a CRED is entitled to the CRED Tax Credit. The tax credit is based on 25% of the qualified investment. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Department of Commerce. The tax credit may be used to reduce the taxpayer's tax liability against the Adjusted Gross Income Tax, CAGIT, COIT, CEDIT, the Insurance Premiums Tax, and the Financial Institutions Tax.

Under current statute, a taxpayer is not entitled to the tax credit to the extent that the taxpayer substantially reduces or ceases its operations elsewhere in Indiana to relocate them within a CRED. However, a taxpayer that reduces or ceases operations remains eligible for the tax credit provided: (1) the taxpayer had existing operations in the CRED; and (2) the operations relocated to the CRED are an expansion of the taxpayer's operations in the CRED. Current statute requires the DOR to make eligibility determinations. This condition for eligibility for taxpayers that reduce operations elsewhere in Indiana is not changed by the bill.

The bill specifies reductions in operations that are *substantial* and would disqualify a taxpayer from claiming the CRED Tax Credit. However, the bill also specifies additional conditions under which a taxpayer that reduces operations elsewhere in Indiana remains eligible for the CRED Tax Credit. The additional eligibility conditions require that the taxpayer relocates all or part of its non-CRED operations for any of the reasons specified below in (A) through (F); and (2) the taxpayer has not terminated or reduced the pension or health insurance obligations payable to employees or former employees of the non-CRED operation with their consent. (Note: Condition (F) below is specified in current law.)

(A) The lease on property necessary for the non-CRED operation has been involuntarily lost through no fault of the taxpayer.
(B) The space available at the location of the non-CRED operation cannot accommodate planned expansion needed by the taxpayer.
(C) The building for the non-CRED operation has been certified as uninhabitable by a state or local building authority.
(D) The building for the non-CRED operation has been totally destroyed through no fault of the taxpayer.
(E) The renovation and construction costs at the location of the non-CRED operation are more than 1.5 times the costs of purchase, renovation, and construction of a facility in the CRED, as certified by three independent estimates.
(F) The taxpayer had existing operations in the district and the nondistrict operations relocated to the district are an expansion of the taxpayer's operations in the district.

The bill also provides that a taxpayer remains eligible for the credit under (C) or (D) only if the criteria in (E) are also met.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Revenue.

Local Agencies Affected: Community Revitalization Enhancement Districts.

Information Sources:

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